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The Equitable Survey IV:

CORPORATE INITIATIVES & EMPLOYEE ATTITUDES ON FLEXIBLE BENEFITS AND CAFETERIA PLANS

Conducted for The Equitable Life Assurance Society of the United States
by Louis Harris and Associates

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INTRODUCTION

The purpose of **The Equitable Survey IV** is to provide information which will aid corporate decisionmakers who are considering offering flexible benefits or cafeteria plans to their employees in the next few years. The survey examines various flexible benefits which employers have introduced, how well the new plans are working, and what employers expect to do in the near future.

This survey establishes a number of benchmarks. It is the first substantial nationwide survey:

- To measure the incidence of flexible benefits in medium-sized and large corporations, and project the incidence in two years;
- To document the experiences of corporate employers who have introduced flexible benefits plans;
- To record how employees have reacted to changes in their benefits and the chance to choose which benefits they receive; and
- To contrast the perceptions of corporate employers who do not offer flexible benefits with the experiences of employers who offer flexible benefits to their employees.

The Equitable Survey IV is the second report to emerge from a study conducted in 1985 by Louis Harris and Associates for the Equitable Life Assurance Society of the United States. The first report, **The Equitable Health Care Survey III: Corporate Initiatives and Employee Attitudes on Cost Containment**, was published in June 1985. **The Equitable Health Care Survey III** is the first detailed study of how corporations have fared in their efforts to contain employee health care costs, how employees have reacted to changes in their health care benefits, how acceptable they find these changes, and how their use of health care services has been affected by these changes.

Fieldwork

Interviews for both the Equitable Survey III and Equitable Survey IV were conducted in February and March 1985 with the following samples, all of which are designed to be representative of the populations from which they are drawn:

- A national cross section of 1,253 employees of corporations with 500 or more employees;
- A national cross section of 1,250 corporate benefits officers in companies with 500 or more employees;
- A national cross section of 200 senior executives in companies with 500 or more employees;
- A national cross section of 200 senior human resource executives in companies with 500 or more employees; and
- One hundred and ten national and regional insurance brokers and consultants who work with corporate clients in the field of group health plans.

Note on the Tables

Percentages in the tables may not add to 100% because of rounding or the acceptance of multiple responses.

Acknowledgements

Louis Harris and Associates is indebted to The Equitable Life Assurance Society of the United States for making this research possible. The contribution of the following individuals is gratefully acknowledged: Richard Freiburger, James Glynn, and Arthur Lifson. Each of these individuals made important contributions to the design of the study and the development of the questionnaire.

Final responsibility for the design and implementation of the survey and for the findings and conclusions contained in this report rests with Louis Harris and Associates.

SURVEY HIGHLIGHTS

This summary provides an overview of the results of this survey. Many findings described in the body of this report do not appear in this summary, and interested readers are urged to examine the full report for these details.

1. **Relatively few corporations of 500 or more employees currently offer flexible benefits or cafeteria plans to employees.** Between 15-16% of corporate benefits officers, senior executives and human resources officers describe their plans as flexible benefits or cafeteria plans.
2. **However, many different features which give employees choices of benefits are included in the plans of corporations whose officers do not consider their plans flexible or cafeteria plans.** Eighty percent of employees report that their plans include at least some choice of benefits, but many of these individual features are available to less than a quarter of all employees (24% or less).
3. **The three most common flexible features which employees say they have** in their plans are the right to include or exclude life insurance (58%), the right to include or exclude a dental plan (41%), and a choice of two or more basic health plans (36%).
4. **An overwhelming majority of employees like having a choice of benefits:** 65% of employees say that they like it a lot, and 21% say that they like it a little. Corporate benefits officers are well-informed about this popularity, but they underestimate just how much employees like having some control over which benefits they receive.
5. **Employees who have some choice of benefits are more satisfied with their jobs, salaries and benefits, than are employees who have no choice of benefits.** For example, forty-nine percent of employees who have some choice of benefits say they are very

satisfied with their benefits, compared to only 40% of employees who have no choice of benefits. And 55% of employees who have choices between benefits say they are very satisfied with their jobs, while only 45% of employees with no choice of benefits say they are very satisfied.

This higher level of satisfaction among employees with a choice of benefits indicates that employers who introduce flexible benefits may also find that they improve employee satisfaction with jobs, salaries, and benefits.

6. **A substantial minority of employers report adding flexible features to benefits plans to make increased cost-sharing and other changes in health plans more acceptable to employees.** Eighty-one percent of employees whose health plans have changed a great deal or somewhat during the past three years say they have some choice of benefits. These include dental and eye care plans, 401(k) plans, a choice of two health plans, flexible spending plans, an HMO option, and full flexible plans.
- These measures appear to help win employee acceptance of changes in their health plans. More employees who have a choice of benefits regard changes in their health plans as very acceptable than do employees who have no choice—36% to 26%, respectively.
7. **Employees voice nearly unanimous support for their employers' decision to offer a choice of benefits.** Ninety-one percent of employees who have some choice between benefits think this decision was at least a somewhat good one, with 56% calling the decision a very good one.

8. **It appears that thorough, clear communications is almost as important in winning employee support for flexible benefits as the benefits themselves.**

There is a powerful correlation between how well employers explain changes in benefits plans and employee support for the introduction of choice into benefits plans. Employees who say their employers did an excellent job explaining changes are far more likely to favor the decision to offer choices of benefits than are employees who say their employers did a fair or poor job explaining changes to them.

9. **Flexible benefits plans appear to help control corporate health care and other benefits costs. Large majorities of employers believe that flexible benefits are effective in controlling the cost of benefits.**

However, a large gap separates the experiences versus the perceptions of corporate benefits officers who do or do not have flexible plans, about the effectiveness of flexible benefits in controlling the cost of benefits. Thirty-five percent of benefits officers whose firms have flexible benefits plans rate them very effective in controlling costs of benefits, compared to only 14% of benefits officers whose firms don't have flexible benefits plans.

This gap is particularly significant because benefits officers whose firms have flexible plans consider controlling the cost of benefits the most important reason for having flexible benefits plans.

But even larger majorities of employers also recognize that flexible benefits are effective in improving benefits for employees; improving employee satisfaction with their benefits; meeting the needs of different types of employees; educating employees about the real costs of their benefits; and improving employee morale and loyalty.

10. **Corporate benefits officers' initial concerns about the magnitude of problems caused by flexible benefits plans are not borne out by the experiences of companies which have put in flexible benefits plans.**

There are immense differences between the perceptions of employers who don't have flexible plans and the experiences of employers who do. For example:

- Only 14% of officers whose firms have flexible plans consider the difficulty or cost of administering these plans a major problem, compared to 64% of officers whose firms don't have them; and
- Only 9% of officers whose firms have flexible plans say that an increase in the overall cost of benefits plans as a result of introducing choice has been a major problem. Thirty-nine percent of officers whose firms don't have these plans believe that increased overall costs of benefits would be a major problem.

However, employers' experiences with flexible benefits plans have not been trouble-free, with about half reporting minor problems with their new plans.

But the striking finding is that most companies with flexible benefits plans have not had major problems with them. In fact, they consider them effective, popular, and they look set to introduce even more features to their plans in the near future.

11. **Nearly all of these employers feel that the decision to offer employees choices between benefits was a good decision.**

Sixty percent of these employers feel that their decision was a very good one, and 35% feel it was a somewhat good decision.

12. Employers expect the use of features which give employees a choice of benefits to increase dramatically in the next two years. For example:

- The option to include or exclude life insurance is expected to rise in corporations which have flexible benefits plans now from a current level of 67% to 82%. Among corporations which currently do not have flexible benefits plans, the prevalence of this option is expected to rise from 40% now to 61%.
- The option to include or exclude a dental plan is expected to rise in corporations which have flexible benefits plans now from a current level of 44% to 64%. The level of this option in corporations which do not have a flexible benefits plan now is expected to rise from 26% to 44%.
- The option to make additional contributions for extra benefits is expected to rise in corporations which have flexible benefits plans now from a current level of 20% to 49%. The level of this option in corporations which do not have flexible benefits plans now is expected to rise from 10% to 39%.

Employers also predict large increases in the prevalence of many other flexible benefits features. However, even with these increases, employers in companies which do not have flexible benefits plans now report that most of these features will still be unavailable to majorities of their employees.

13. These increases in features which give employees choices between benefits may contribute to a doubling within two years of the incidence of corporations which offer full-fledged flexible benefits plans — as opposed to plans which have only a few or no flexible benefits features. Between 13-19% of corporate employers expect to introduce flexible benefits or cafeteria plans in the next two years. If these expectations are accurate, the incidence of these plans in corporations with 500 or more employees will rise from 15-16% today to between 28-33%.

14. A caveat: there are dangers in particularizing from the overall findings to an individual employer, benefits plan, or employee. This report shows a wide variety of different actions by employers, effects, attitudes, and reactions. Readers should recognize that even where substantial majorities give one answer to a question, minorities—usually representing millions of employees—disagree with the majority.

CHAPTER 1: CURRENT AND FUTURE USE OF FLEXIBLE BENEFITS AND CAFETERIA PLANS

Current Use of Flexible Benefits and Cafeteria Plans

A relatively modest proportion of employers in corporations with 500 or more employees, which were the focus of this study, report that they now offer flexible benefits or cafeteria plans to their employees. Between 15-16% of corporate benefits officers, senior executives and human resource executives describe their employee benefits plans as either flexible benefits or cafeteria plans. Corporate benefits officers also report that

these plans are significantly more prevalent in the West (20%) than in the East (12%), and slightly more common in the West than in the Midwest and South. The vast majority of all three employer groups say that neither of these two terms describes their employee benefit plans.

Those corporate benefits officers who describe their benefits plans as flexible or cafeteria plans say these plans are available, on average, to two-thirds (67%) of their employees.

Table 1

PERCENTAGE OF EMPLOYERS WHO DESCRIBE PLANS AS A CAFETERIA PLAN OR FLEXIBLE BENEFITS PLAN

Q.: (Employers) Different people use different words to describe their plan. Would you describe your plan as a cafeteria plan, as a flexible benefits plan, or what?

	Corporate Benefits Officers						
	Total	By Region				Senior Executives	Human Resource Officers
		East	Mid-west	South	West		
Base	1250	410	300	344	196	200	200
	%	%	%	%	%	%	%
Cafeteria plan	3	2	2	3	5	2	3
Flexible benefits plan	12	11	14	10	15	14	12
Neither	84	86	82	86	79	82	84
Not sure	2	2	1	2	1	3	2

Observation:

When asked if the terms flexible benefits or cafeteria plan described their companies' plans, employers made their own interpretation of these terms. No standard definition was read to respondents. Thus, some employers who offer some choice of benefits to employees defined these terms more stringently than just the availability of choice, which may account in part for the low incidences reported in Table 1.

Table 2**PERCENTAGE OF EMPLOYEES WHO HAVE FLEXIBLE BENEFITS OR CAFETERIA PLANS WITHIN FIRMS THAT OFFER THEM**

Base: Corporate benefits officers who describe plan as a flexible benefits or cafeteria plan

Q.: (Corporate Benefits Officers) Approximately what percentage of your employees have cafeteria or flexible benefits plans?

	Corporate Benefits Officers
Base: 184	%
Mean	67

Prevalence of Flexible/Cafeteria Features in Benefits Plans

Table 3 shows three different measures of the prevalence of 11 flexible features which appear in employee benefits plans. The first column shows the number of employees in corporations of 500 or more employees who report that their benefits plans include these features. The second and third columns show the prevalence of each of these features in companies which do or do not offer flexible benefits plans to employees. And the fourth column shows what brokers/consultants who work with corporate clients on group plans believe is the prevalence of these features.

The replies of employees show that there is wide variation in the use of these features in employee benefits plans. Although 80% of employees report that their plans include at least one of these 11 features, their responses also show that most of these features are available to relatively small minorities of employees (24% or less). The three most common features reported by employees are the right to include or exclude life insurance (58%), the right to include or exclude a dental plan (41%), and a choice of two or more basic health care plans (36%).

Corporate benefits officers whose firms do or do not offer flexible benefits plans to their employees report significant differences in the use of these features. However, it is notable that minorities of employers who state explicitly that their firms do not have flexible benefits plans also report that their employee benefits plans include features which give employees a choice of benefits.

In contrast to the low levels reported by employees and corporate benefits officers, brokers/consultants report that majorities of their corporate clients offer six of the eleven features in Table 3.

Observations:

(1) The replies given by employees in Table 3 are a measure of what employees believe their plans include. They may not be accurate beliefs, but the proportions reported for most features are close to the proportions reported by corporate benefits officers. Two exceptions are the prevalence of flexible spending plans and the right to invest in a 401(k) plan. This apparent underreporting by employees suggests that employees don't know that their firms offer these benefits, or that their employers offer these benefits under different names. The high level of "not sure" responses given to the latter also suggests that many employees don't understand what a 401(k) plan is.

(2) It should be emphasized that although only 15% of corporate benefits officers report offering employees flexible benefits or cafeteria plans, many features which commonly appear in such plans are available to minorities, which represent many millions of employees. It appears that the benefits officers who offer employees some choice but don't regard their plans as flexible benefits plans feel there is not enough choice to define the plans as such.

(3) Brokers/consultants were asked if these features applied to any of the employees in companies they worked with, which may have included dozens of companies of all sizes. As such, brokers/consultants responses and those of the corporate benefits officers reflect different universes, and are not strictly comparable.

Table 3

PREVALENCE OF VARIOUS FLEXIBLE/CAFETERIA BENEFITS IN EMPLOYEE BENEFIT PLANS

Q.: (Employees) Do the following apply to your benefits plan with your company?

Q.: (Employers) I will read you some types of flexible benefit plan options. Would you please say for each one if it already applies to any of your employees, or if it is something you expect to apply to some employees in the next 2 years, or if it does not apply and will not apply.

Q.: (Brokers/Consultants) I will read you some types of flexible benefit plan options. Would you please say for each one if it already applies to any of the employees of any of the companies you work with, or if it is something you expect to apply to some employees in the next 2 years, or if it does not apply and will not apply.

		Applies Now		
		Corporate Benefits Officers		Brokers/ Consultants
		Offer Cafeteria or Flexible Benefits Plan	Do Not Offer Cafeteria or Flexible Benefits Plan	
	Employees			
Base	1253	184	1047	110
	%	%	%	%
The right to include or exclude life insurance or vary the amounts	58	67	40	77
The right to include or exclude a dental plan	41	44	26	61
The employee's right to choose between two or more basic health care plans—for example, plans with different employee contributions, deductibles, or co-payments	36	36	16	56
The right to include or exclude an eye care plan	24	19	8	38
The right to make additional contributions for extra benefits	22	20	10	60
The right to invest in a 401(k) plan	15	41	34	83
The so-called flexible spending plan in which you can pay for certain benefits with pre-tax dollars	13	23	3	53
The right to include or exclude auto insurance	10	NA	NA	NA
The right to trade paid time off for other benefits or cash	9	8	3	28
The right to include or exclude legal insurance	7	5	2	14
The right to trade off health care benefits for other non-health care benefits or cash	6	13	1	37

NA = Not asked

Prevalence in the Near Future of Flexible/Cafeteria Benefits

Table 4 shows that in the next two years, the use of these 11 flexible benefits features will increase dramatically in corporations with 500 or more employees—if the expectations of corporate benefits officers are accurate. However, most of these features will probably still be unavailable to majorities of employees who work in companies which do not currently offer flexible benefits or cafeteria plans.

Brokers/consultants also expect rapid growth during the next two years in the use of these features among the companies which they work with on group plans.

Not surprisingly, within two years these increases may result in a doubling of the incidence of corporations which describe their plans as full-fledged flexible benefits plans—as opposed to benefits plans which have only a few or no flexible/cafeteria features. Table 5 shows that 19% of corporate benefits officers, 13% of senior executives, and 14% of human resource executives expect their companies to introduce flexible benefits or cafeteria plans in the next two years. If these expectations are accurate, the incidence of flexible benefits and cafeteria plans in

corporations with 500 or more employees will rise from 15-16% today to between 28-33%. And if corporate benefits officers' expectations about their regions are accurate, then the incidence of flexible benefits and cafeteria plans in the Midwest and West may be significantly higher—about 40%—than in the East (30%) and the South (28%).

Observation:

The tables in this chapter suggest something important about the way that most corporate employers are building flexible benefits into their employee benefits plans. They appear to introduce features individually, or a few at a time—to see how employees react to them, how well they work, and to help win employee acceptance of changes in health plans and increased cost-sharing. (Table 10 of this report, which also appeared in Equitable Survey III, shows that a majority of employers who have increased employee cost-sharing have increased benefits to ease the pain of this increased burden.) Only a vanguard appear to have replaced traditional benefits plans with full-fledged, multi-feature flexible benefits plans. However, it should be understood that this is a conclusion inferred from the overall pattern of results in this study.

Table 4

**PREVALENCE IN THE NEAR FUTURE OF VARIOUS FLEXIBLE/CAFETERIA BENEFITS
IN EMPLOYEE BENEFIT PLANS**

Q.: (Employers) I will read you some types of flexible benefit plan options. Would you please say for each one if it already applies to any of your employees, or if it is something you expect to apply to some employees in the next 2 years, or if it does not apply and will not apply.

Q.: (Brokers/Consultants) I will read you some types of flexible benefit plan options. Would you please say for each one if it already applies to any of the employees of any of the companies you work with, or if it is something you expect to apply to some employees in the next 2 years, or if it does not apply and will not apply.

	Will Apply in Next 2 Years				
	Corporate Benefits Officers		Senior Executives	Human Resource Officers	Brokers/Consultants
	Now Offer Cafeteria or Flexible Benefits Plan	Do Not Now Offer Cafeteria or Flexible Benefits Plan			
Base	184	1047	200	200	110
	%	%	%	%	%
The right to include or exclude life insurance or vary the amounts	82	61	60	62	86
The right to include or exclude a dental plan	64	44	48	43	75
The employee's right to choose between two or more basic health care plans—for example, plans with different employee contributions, deductibles, or co-payments	53	36	33	42	76
The right to include or exclude an eye care plan	39	25	27	26	57
The right to make additional contributions for extra benefits	49	39	39	40	83
The right to invest in a 401(k) plan	65	64	58	61	95
The so-called flexible spending plan in which you can pay for certain benefits with pre-tax dollars	38	22	14	21	75
The right to include or exclude auto insurance	NA	NA	NA	NA	NA
The right to trade paid time off for other benefits or cash	21	14	15	10	49
The right to include or exclude legal insurance	8	6	6	7	35
The right to trade off health care benefits for other non-health care benefits or cash	32	18	15	13	63

NA = Not asked.

Table 5

**EXPECTATIONS FOR INTRODUCING A FLEXIBLE BENEFITS
OR CAFETERIA PLAN IN THE NEXT 2 YEARS**

Q: (Employers) Do you expect to introduce a flexible benefits or cafeteria plan in the next 2 years for any of your employees, or not?

	Corporate Benefits Officers					Senior Executives	Human Resource Officers
	Total	By Region					
		East	Midwest	South	West		
Base	1250	410	300	344	196	200	200
	%	%	%	%	%	%	%
Yes, expect	19	17	23	16	20	13	14
	} 33*	} 30	} 40	} 28	} 40	} 28	} 28
Already offer flexible/ cafeteria plan	15	12	17	13	20	16	15
Do not expect	58	61	53	64	51	63	64
Not sure	8	10	7	8	9	10	9

*The figures to the right of the brackets represent the projected incidence of flexible benefits and cafeteria plans in two years. The projection is the sum of the current reported incidence of flexible plans and the expected introduction of these plans.

CHAPTER 2: HOW EMPLOYEES REACT TO HAVING A CHOICE OF BENEFITS

How Much Employees Like Having a Choice of Benefits

The opportunity to have some choice in the benefits which they receive is a popular right among an overwhelming majority of employees: 65% of employees say that they like it a lot, and 21% say that they like it a little. Among the remaining 13% of employees, only 2% say that they don't like having a choice of different benefits.

Certain groups of employees are more likely to be very receptive to having a choice of benefits. These include employees aged 18-29 years as compared to those aged 50 and over, female employees, employees in the West in contrast to employees in the East, and non-union employees.

As Table 7 shows, corporate benefits officers are well informed about how employees feel about having a choice of benefits. Eighty-seven percent of corporate benefits officers say their employees like having a choice of benefits at least a little, compared to the actual figure of 86% reported by employees.

Observation:

It should be noted that the differences mentioned above between demographic groups (in Table 6) are statistically significant, but in no way contradictory of the fact that majorities of all

demographic groups like having a choice of benefits a lot. These differences are, nevertheless, interesting and fairly consistent with demographic contrasts found in the Equitable Survey III. For example:

- *A regional analysis of the Equitable Survey III results found that employees in the East are less receptive to changes in their health plans and less satisfied with these plans than employees elsewhere in the nation.*

Also, corporate employers in the East reported more difficulty implementing these changes, and that the changes had been less effective than did employers in other regions—even though Eastern employers reported making the fewest changes in employee health plans.

- *Union employees are more resistant to changes in their health plans and to increased cost-sharing than non-union employees.*

However, perhaps the most important evidence in Table 6 of the popularity of flexible benefits is that there are virtually no differences in popularity between income groups. In contrast, the Equitable Survey III found that low income employees, who are much more adversely affected by increased cost-sharing, find such changes less acceptable than do other employees.

Table 6

HOW MUCH EMPLOYEES LIKE HAVING A CHOICE OF BENEFITS

Base: Those whose employers offer some choice of benefits

Q.: (Employees) How do you feel about having a choice of different benefits? Do you like it a lot, like it a little, not like it, or don't you care?

	Base	Like It a Lot	Like It a Little	Don't Like It	Don't Care	Not Sure
Total	999	65%	21%	2%	10%	1%
By Region						
East	245	65%	20%	3%	10%	2%
Midwest	270	59%	23%	3%	13%	2%
South	326	66%	22%	1%	9%	2%
West	158	74%	18%	1%	7%	1%
By Sex						
Male	652	62%	25%	3%	10%	1%
Female	347	71%	15%	1%	11%	2%
By Income						
\$15,000 or less	227	64%	22%	1%	12%	1%
\$15,001 to \$25,000	292	68%	18%	3%	11%	1%
\$25,001 to \$35,000	250	66%	22%	2%	8%	2%
\$35,001 or more	199	62%	25%	2%	9%	2%
By Age						
18-29	319	70%	17%	2%	10%	1%
30-39	324	68%	21%	2%	8%	1%
40-49	205	61%	24%	3%	10%	2%
50 or over	146	57%	26%	1%	13%	3%
By Union Membership						
Member	206	59%	26%	2%	11%	2%
Non-member	740	67%	20%	2%	10%	1%
By Type of Plan						
Contributory	625	67%	20%	2%	10%	1%
Noncontributory	363	62%	24%	2%	10%	2%
With deductible	801	65%	22%	2%	10%	2%
Without deductible	174	68%	21%	2%	9%	1%
By Acceptability of Changes in Plans						
Very acceptable	215	70%	19%	2%	9%	1%
Somewhat acceptable	270	65%	23%	2%	9%	1%
Not acceptable	114	60%	24%	7%	8%	2%

Table 7

**HOW EMPLOYERS THINK EMPLOYEES FEEL ABOUT
HAVING A CHOICE OF DIFFERENT BENEFITS**

Base: Those who describe plan as a flexible benefits or cafeteria plan

Q.: (Corporate Benefits Officers) How do you think most of your employees feel about having a choice of different benefits? Do you think they like it a lot, like it a little, that they don't like it, or don't they care?

	Corporate Benefits Officers
Base: 184	%
They like it a lot	55
They like it a little	32
They don't like it	1
They don't care	10
Not sure	3

Employee Satisfaction With Jobs, Salaries, and Benefits

Employees who have some choice of benefits report a higher level of satisfaction with their jobs, salaries and benefits than do employees who have no choice of benefits (Table 8). Among employees who have some choice of benefits: 55% say they are very satisfied with their jobs; 36% say they are very satisfied with their salaries; and 49% say they are very satisfied with their benefits. In contrast, only 45% of employees who have no choice of benefits say they are very satisfied with their jobs; only 28% of these employees say they are very satisfied with their salaries; and only 40% say they are very satisfied with their benefits. Also, fewer employees who have some choice of benefits say

they are very dissatisfied with their salaries and benefits than do employees who have no choice of benefits.

Observation:

The higher level of satisfaction among employees who have some choice of benefits could mean that employers who introduce flexible benefits may also find that they improve employee satisfaction with their jobs, salaries, and benefits.

However, it should be cautioned that employees who have choices of benefits may be more satisfied because they already had better jobs, salaries and benefits. The introduction of choice in benefits may well be an indicator of a better place in which to work.

Table 8

EMPLOYEE SATISFACTION WITH JOBS, SALARIES, AND BENEFITS

Q.: (Employees) All in all, how satisfied would you say you are with your job—very satisfied, somewhat satisfied, somewhat dissatisfied, or very dissatisfied?

Q.: (Employees) All in all, how satisfied would you say you are with your salary—very satisfied, somewhat satisfied, somewhat dissatisfied, or very dissatisfied?

Q.: (Employees) And how satisfied are you with all of your other benefits apart from your salary—very satisfied, somewhat satisfied, somewhat dissatisfied, or very dissatisfied?

	Employees	
	Have Some Choice of Benefits	Do Not Have Some Choice of Benefits
Base: 1,253	999	254
	%	%
Satisfaction With Job		
Very satisfied	55	45
Somewhat satisfied	33	39
Somewhat dissatisfied	8	10
Very dissatisfied	4	5
Not sure	*	1
Satisfaction With Salary		
Very satisfied	36	28
Somewhat satisfied	46	43
Somewhat dissatisfied	12	17
Very dissatisfied	6	11
Not sure	*	*
Satisfaction With Benefits		
Very satisfied	49	40
Somewhat satisfied	35	37
Somewhat dissatisfied	11	11
Very dissatisfied	5	11
Not sure	*	—

*Less than 0.5%.

Acceptability of Changes in Health Plans: Among Employees Who Do or Do Not Have a Choice of Benefits

More employees who have some choice between benefits than employees who have no choice of benefits regard changes in their health plans as very acceptable—36% to 26%, respectively. Among employees whose health plans have changed a great deal or somewhat in the past three years, a vast majority (81%) have some choice between the benefits which they receive. But it should be emphasized that substantial majorities of both this group and those employees who have no choice of benefits find changes in their health plans at least somewhat acceptable.

The results presented in Table 10 suggest that many of the employees who have some choice of benefits first received them in the last 3 years. A majority of employers who in the last 3 years have increased cost-sharing by employees also have added new benefits to make the changes more acceptable. These changes include such flexible benefits as dental and eye care plans, 401(k) plans, a choice of two health plans, flexible spending plans in which employees can pay for certain benefits with pre-tax dollars, an HMO option, and full flexible benefits plans. The introduction of a dental plan is the new benefit most appreciated by employees.

Observations:

(1) There is a 25-point difference between the 30% of employees who say their employers have added benefits and the majorities of employers who say they have done this. This suggests that employers

who have introduced benefits to make changes more acceptable have done a poor job informing employees about these new benefits; and thus squandered an opportunity to win wider employee acceptance of increased cost-sharing, as the contrast in Table 9 between employees who do and do not have a choice of benefits clearly shows.

(2) These findings provide important supporting evidence to two major findings of the Equitable Survey III. First, a large majority of employees accept changes in their health plans, as long as cost-sharing doesn't increase too much. Employers should recognize that adding new benefits makes it easier to win employee acceptance of changes, but this alone does not account for the 79% of employees who rate the changes in their health plans acceptable.

Second, there is a strong correlation between the quality of corporate communications and employee support for changes in health plans and other benefits. Employees who feel their employers did an excellent job explaining changes are far more likely to rate changes very acceptable than are employees who feel their employers did a fair or poor job explaining changes.

Table 9

**ACCEPTABILITY TO EMPLOYEES OF CHANGES IN HEALTH PLANS MADE BY EMPLOYERS:
AMONG THOSE WHO DO OR DO NOT HAVE A CHOICE OF BENEFITS**

**Base: All employees whose health plans have
changed a great deal or somewhat**

Q.: Overall, how acceptable have the changes made by your employer been to employees such as yourself—very acceptable, somewhat acceptable, not very acceptable, or not at all acceptable?

	Base	Very	Somewhat	Not Very	Not at All
All Employees	740	34%	45%	16%	5%
By Whether or Not Employees Have a Choice of Benefits					
Have a choice of benefits	600	36%	45%	16%	3%
Do not have a choice of benefits	140	26%	44%	19%	9%

Table 10

**MOST APPRECIATED BENEFITS ADDED TO HEALTH PLANS
TO MAKE CHANGES MORE ACCEPTABLE**

**Base: All whose plans have increased cost-sharing by employees
a great deal or somewhat**

Q.: (Employees) In making changes in the health plans for employees such as yourself, did your employer also add any new benefits to make the changes more acceptable?

Q.: (Employees) What one additional benefit do you think was most appreciated and valued by employees such as yourself?

Q.: (Employers) In making changes in the health plans for your employees, did you also add any new benefits to make the changes more acceptable, or for any other reason?

Q.: (Employers) What one additional benefit do you think was most appreciated and valued by your employees?

	Employees	Corporate Employers		
		Corporate Benefits Officers	Senior Executives	Human Resource Executives
Base	624	641	107	104
	%	%	%	%
All With Added Benefits	30	55	57	55
Benefits Most Appreciated				
New dental plan	9	12	14	5
Increased dental benefits	*	1	4	2
Vision/eye care benefits	1	2	4	3
Increased outpatient benefits	*	8	7	5
Increased major medical	*	3	6	5
401(k) plan	*	3	1	0
Prescription drug coverage	1	3	2	3
Additional life insurance	1	3	1	6
Short-term disability	*	1	1	1
Long-term disability	*	1	1	1
HMO option	1	1	1	*
Increased accident coverage	*	1	—	3
Increased employer contributions	*	1	2	—
Psychiatric/drug coverage	*	1	1	2
Maternity benefits	*	1	1	2
Wellness program	*	1	—	1
Increased benefits (unspecified)	2	—	—	—
PPO option	1	—	—	—
Offered choice of 2 plans	1	—	—	—
Flexible plans	1	—	—	—
All other mentions	9	12	11	14
Not sure	3	1	1	2

* Less than 0.5%.

How Employees Rate Employers' Decision to Offer a Choice of Benefits

Employees are nearly unanimous in supporting their employers' decision to offer employees a choice of benefits. Ninety-one percent of employees who have some choice between benefits say this was at least a somewhat good decision, and a majority of 56% rate it a very good decision. Only 5% of employees say that offering a choice of benefits was not a very good decision, and 2% say it was a mistake.

However, employees who say their employers did an excellent job explaining changes are far more likely to feel the decision to offer a choice of benefits was a very good one than do employees who say their employers did a fair or poor job explaining changes. Seventy-two percent of employees who rate their employers' communications excellent say the decision was a very good one. Only 43% of employees who say their employers did a fair or poor job explaining changes feel that offering a choice of benefits was a very good decision.

Observation:

This powerful correlation between the quality of corporate communications and employee support for the introduction of flexible benefits mirrors one

of the most important findings of the Equitable Survey III. Employees who feel their employers do an excellent job explaining changes in health plans are far more likely to rate these changes very acceptable than employees who feel their employers did a fair or poor job explaining changes. This correlation is so strong that it appears good communications seems to be almost as important as the details of the changes made

The 29-point gap in Table 11 between employees who give their employers excellent versus poor marks in explaining changes in health plans and other benefits provides strong supporting evidence for this major finding of the Equitable Survey III.

Majorities of employees in every region of the country rate the decision to offer a choice of benefits a very good one, but a significantly greater proportion of employees in the West (68%) than employees elsewhere feel this way. Female employees also rate this decision more positively than males. And non-union members also responded a bit more positively than union employees, but this difference is merely consistent with a pattern of differentiation between the groups, and not statistically significant.

Table 11

HOW EMPLOYEES RATE EMPLOYERS' DECISION TO OFFER A CHOICE OF BENEFITS

Base: Those whose employers offer some choice between different benefits plans

Q.: (Employees) Overall, would you say that your employer's decision to offer employees a choice of benefits was a very good decision, a somewhat good decision, not a very good decision, or a mistake?

	Base	Very Good Decision	Somewhat Good Decision	Not a Very Good Decision	Mistake	Too Early to Say	Not Sure
Total	999	56%	35%	5%	2%	*	2%
By Region							
East	245	53%	37%	7%	2%	1%	1%
Midwest	270	51%	37%	5%	4%	*	3%
South	326	56%	36%	6%	2%	—	2%
West	158	68%	24%	4%	1%	1%	2%
By Sex							
Male	652	53%	37%	5%	3%	*	3%
Female	347	61%	31%	6%	1%	1%	1%
By Union Membership							
Member	206	52%	33%	8%	3%	1%	3%
Non-member	740	56%	35%	5%	2%	*	2%
By Type of Plan							
Contributory	625	56%	34%	6%	2%	1%	1%
Noncontributory	363	55%	36%	4%	3%	*	3%
With deductible	801	53%	37%	6%	2%	*	2%
Without deductible	174	64%	29%	3%	2%	1%	2%
By Job Done by Employers in Explaining Changes							
Excellent	184	72%	23%	2%	2%	—	1%
Good	232	55%	38%	4%	2%	*	*
Fair or poor	180	43%	39%	11%	4%	—	3%

*Less than 0.5%.

CHAPTER 3: EMPLOYER EXPERIENCES AND PERCEPTIONS ABOUT FLEXIBLE BENEFITS AND CAFETERIA PLANS AND THE PROBLEMS INVOLVED WITH THESE PLANS

Effectiveness of Flexible Benefits in Achieving Corporate Goals: Employers' Perceptions and Experiences

Both corporate benefits officers whose companies do and those whose companies do not have flexible benefits plans were asked to evaluate the effectiveness of these plans in achieving six different corporate goals. Tables 12 and 13 show that with one significant exception—controlling the cost of benefits—corporate benefits officers' perceptions about the effectiveness of flexible benefits in achieving these goals closely match the experiences of benefits officers whose companies have flexible benefits plans.

Large majorities of both those employers who don't have flexible benefits plans, and those who have seen firsthand how they work, believe they are at least somewhat effective in controlling the cost of benefits, improving benefits for employees,

meeting the needs of different types of employees, educating employees about the real costs of their benefits, improving employees' satisfaction with their benefits, and improving employee morale and loyalty.

But a gap of 21 points separates the experiences and perceptions of corporate benefits officers on the effectiveness of flexible benefits in controlling the cost of benefits. Thirty-five percent of officers who have them rate them very effective in controlling costs, compared to only 14% of officers whose employees don't have these plans. This gap is particularly significant because officers who have these plans consider controlling the cost of benefits the most important reason for having flexible benefits and cafeteria plans.

Small minorities of employers who have implemented flexible benefits plans feel they are not very or not at all effective in achieving these corporate goals.

Table 12

**PERCEIVED EFFECTIVENESS OF FLEXIBLE BENEFITS PLANS IN
ACHIEVING CORPORATE GOALS: AMONG EMPLOYERS WHO DON'T OFFER THEM**

**Base: Corporate benefits officers who describe plan as neither
a flexible benefits nor a cafeteria plan**

Q: (Corporate Benefits Officers) I will read you some reasons why some other companies have flexible benefits. Please say for each one how effective you think flexible benefits usually are— very effective, somewhat effective, not very effective, or not at all effective in actually achieving this.

Base: 1,066	Very Effective	Somewhat Effective	Not Very Effective	Not at All Effective	Not Sure
Controlling the cost of benefits	14%	49%	22%	10%	6%
Improving benefits for employees	29%	49%	13%	6%	4%
Meeting the different needs of different types of employees	53%	35%	7%	4%	2%
Educating employees about the real costs of their benefits	34%	46%	14%	5%	2%
Improving employee satisfaction with their benefits	39%	47%	9%	2%	2%
Improving employee morale and loyalty	23%	49%	19%	5%	3%

Table 13

**EFFECTIVENESS OF FLEXIBLE BENEFITS PLANS IN ACHIEVING CORPORATE GOALS:
AMONG THOSE WHO OFFER A FLEXIBLE BENEFITS OR CAFETERIA PLAN**

**Base: Corporate benefits officers who describe plan as a
flexible benefits or cafeteria plan**

Q.: (Corporate Benefits Officers) I will read you a list of reasons why some companies have introduced flexible or cafeteria benefits plans. Please say for each one if having flexibility and choice in your plans is very effective, somewhat effective, not very effective, or not at all effective in actually achieving this.

Base: 184	Very Effective	Somewhat Effective	Not Very Effective	Not at All Effective	Not Sure
Controlling the cost of benefits	35%	54%	6%	3%	2%
Improving benefits for employees	36%	54%	9%	1%	—
Meeting the different needs of different types of employees	52%	40%	6%	1%	1%
Educating employees about the real costs of their benefits	38%	45%	13%	4%	1%
Improving employee satisfaction with their benefits	39%	53%	7%	1%	1
Improving employee morale and loyalty	27%	58%	14%	2%	—

Table 14

**MOST IMPORTANT REASON FOR IMPLEMENTING A
FLEXIBLE BENEFITS OR CAFETERIA PLAN**

**Base: Corporate benefits officers who describe plan as a
flexible benefits or cafeteria plan**

Q.: (Corporate Benefits Officers) Which of these reasons that I have just read were the most important reasons for your company to have flexible/cafeteria benefits?

	Corporate Benefits Officers
Base: 184	%
Controlling the cost of benefits	40
Meeting the different needs of different types of employees	27
Improving employee satisfaction with their benefits	17
Improving employee morale and loyalty	16
Educating employees about the real costs of their benefits	14
Improving benefits for employees	11
Not sure	5

Magnitude of Problems Caused by Flexible Benefits Plans: Employers' Perceptions and Experiences

The two groups of corporate benefits officers—those whose companies do or do not have flexible benefits plans—also were asked to assess problems which accompany flexible benefits plans. Tables 15 and 16 show that corporate benefits officers' fears about the severity of problems with flexible benefits are not born out by the experiences of companies who have introduced these plans. There are immense differences between the two groups' perceptions and experiences:

- Only 14% of officers whose firms have flexible plans consider the difficulty or cost of administration a major problem, compared to 64% of officers whose firms don't have flexible plans. Furthermore, more than one-third (36%) of officers with flexible plans say that difficulty or cost of administration has not been a problem.

- Only 21% of officers whose firms have flexible plans consider the difficulty or cost of communicating details of the plans to employees a major problem, compared to 55% of officers whose firms don't have flexible plans. A significant minority (28%) of officers with flexible plans say that communicating details to employees has not been a problem.
- Only 9% of officers whose firms have flexible plans say that an increase in the **overall cost** of benefits plans as a result of introducing choices has been a major problem. Thirty-nine percent of officers whose firms don't have flexible plans believe that increases in overall costs of benefits would be a major problem. And nearly 45% of officers with flexible plans say that overall increases in costs have not been a problem.

However, employers' experiences with flexible benefits plans have not been trouble-free. About half of corporate benefits officers whose firms have flexible plans report encountering minor problems with their plans.

Observation:

The fact that so many corporate employers believe that flexible benefits plans would cause major problems perhaps explains why only 15% of employers have introduced full-fledged flexible/cafeteria plans; and why most employers seem to introduce flexible features piecemeal, even though large majorities believe that flexible benefits are very effective in controlling costs and achieving other corporate goals.

The overwhelmingly positive experiences reported by corporate benefits officers who have flexible plans—both in their effectiveness and in the manageability of problems with them—suggest that employers need not be so cautious in introducing these plans. Moreover, flexible benefits are popular with employees. It seems probable

that employers who expect to introduce flexible benefits plans to employees in the near future will also be able to implement these plans successfully, and achieve their corporate objectives—if these employers do at least a good and, preferably, an excellent job informing employees about their new benefits and explaining what they mean.

Whether or Not Offering a Choice of Benefits Was a Good Decision

The final table in this report completes the picture of employers' positive experiences with flexible benefits plans. Sixty percent feel that offering employees a choice of benefits was a very good decision, and 35% feel it was a somewhat good decision. Only 2% say that offering employees a choice of benefits was not a very good decision or a mistake.

Table 15

PERCEIVED MAGNITUDE OF PROBLEMS CAUSED BY FLEXIBLE BENEFITS PLANS: AMONG THOSE WHO DON'T OFFER THEM

Base: Corporate benefits officers who describe plan as neither
a flexible benefits nor a cafeteria plan

Q.: (Corporate Benefits Officers) There are also some possible problems with flexible and cafeteria benefits plans. Please say for each of the following if you think it is usually a major problem, a minor problem, or not a problem at all for employers with these plans.

Base: 1,066	Major Problem	Minor Problem	Not a Problem	Not Sure
The difficulty or cost of administration of the plan	64%	29%	4%	3%
The difficulty or cost of communicating the details of the plan to employees	55%	37%	6%	2%
An increase in the overall cost of the plan as a result of introducing choice	39%	48%	9%	5%

Table 16

**MAGNITUDE OF PROBLEMS CAUSED BY FLEXIBLE BENEFITS PLANS:
AMONG THOSE WHO OFFER A FLEXIBLE BENEFITS OR CAFETERIA PLAN**

**Base: Corporate benefits officers who describe plan
as a flexible benefits or cafeteria plan**

Q.: (Corporate Benefits Officers) There are also some possible problems with flexible and cafeteria benefits plans. Please say for each of the following if it has been a major problem, a minor problem, or not a problem at all for your company.

Base: 184	Major Problem	Minor Problem	Not a Problem	Not Sure
The difficulty or cost of administration of the plan	14%	47%	36%	3%
The difficulty or cost of communicating the details of the plan to employees	21%	50%	28%	1%
An increase in the overall cost of the plan as a result of introducing choice	9%	45%	45%	2%

**DIFFERENCES BETWEEN THE EXPERIENCES OF EMPLOYERS WHO OFFER
FLEXIBLE AND CAFETERIA PLANS AND THE PERCEPTIONS OF
EMPLOYERS WHO DO NOT OFFER THEM (Table 16 figures - Table 15 figures)**

Base: 184	Major Problem	Minor Problem	Not a Problem	Not Sure
The difficulty or cost of administration of the plan	-50%	+18%	+32%	-
The difficulty or cost of communicating the details of the plan to employees	-34%	+13%	+22%	-1%
An increase in the overall cost of the plan as a result of introducing choice	-30%	-3%	+36%	-3%

Table 17

**WHETHER OR NOT EMPLOYERS FEEL OFFERING EMPLOYEES A CHOICE
OF BENEFITS WAS A GOOD DECISION**

**Base: Corporate benefits officers who describe plan
as a flexible benefits or cafeteria plan**

Q.: (Corporate Benefits Officers) Overall, would you say that your company's decision to offer employees a choice of benefits was a very good decision, a somewhat good decision, not a very good decision, or a mistake?

	Corporate Benefits Officers
Base: 184	%
Very good decision	60
Somewhat good decision	35
Not a very good decision	1
Mistake	1
Too early to say	1
Not sure	1

APPENDIX: SURVEY METHOD

Sample Design

The following separate samples were used in this study:

Employees of corporations with 500 or more employees. A nationwide cross-section of 7073 adults was screened in order to locate a representative sample of 1,253 employees. The initial sample was generated by random-digit dialing, based on an unclustered sampling frame, stratified by region and by the Census Bureau's "size of place" designations.

Employers. Three separate samples of employers were interviewed. Three systematic samples of corporations were drawn from the Dunn & Bradstreet listing of corporations with 500 or more employees in the U.S.

- One sample of corporations was used to generate **1,250 corporate benefits officers**.
- A second sample of corporations was used to draw a sample of **200 senior executives** (executive vice president level or above).
- A third sample was used to draw a sample of **200 senior human resource executives**.

Each of these three samples was drawn separately, and should not be aggregated. While each sample is projectable to its universe, the aggregate would not be representative of any universe.

Brokers and Consultants. Interviews were completed with 110 senior executives working in insurance brokerage firms and consulting firms.

- Forty of these interviews were with senior employee benefits experts in the head offices and regional offices of the ten largest brokerage firms.
- Forty of these interviews were in 40 of the larger medium-sized insurance brokerage firms.
- Ten interviews were with group health insurance consultants in the larger accounting firms, and 20 interviews were with group health insurance consultants in consulting firms.

These 110 interviews were drawn selectively with key individuals targeted in the larger firms in each segment. Unlike the samples of employees and employers, this is not a strict probability sample and the replies of the consultants cannot be projected to be accurately representative of all brokers and consultants. The findings for this sample are, therefore, indicative and not definitive.

Interviewing

All interviews were conducted by telephone from the New York offices of Louis Harris and Associates, during February and March 1985. The employee sample was interviewed at home from 5 P.M. to 10 P.M. (local time) on weekdays, and from 10 A.M. to 10 P.M. (local time) on weekends. The employer/broker and consultant samples were interviewed on weekdays from 9 A.M. to 5 P.M. Where necessary, appointments were made to interview the relevant individual within the organization contacted.

Up to three callback attempts were made to reach all selected respondents.

Questionnaires

Three questionnaires were developed for this survey: one for employees, one for employers (corporate benefits officers, senior executives, and human resource executives), and one for brokers/consultants. Many of the questions were very similar, with employees answering questions about themselves, employers answering questions about their employees, and brokers/consultants answering questions about the companies which they advise and work with. Copies of the questionnaires can be obtained from Louis Harris and Associates.

Data Processing

The editing, coding, and data processing of all questionnaires were conducted by Louis Harris and Associates.

Codes were developed for responses to open-end questions, with only those responses given by less than 0.2% of the respondents being coded as "other" responses.

The data were analyzed and tabulated separately for each of the five samples.

Sampling Error

The table below indicates the sampling error associated with the various samples sizes and the reported sample percentages at the 95% confidence level:

REPORTED SAMPLE PERCENTAGE					
Sample Size	10% or 90%	20% or 80%	30% or 70%	40% or 60%	50%
1,250	2%	2%	3%	3%	3%
200	4%	5%	6%	6%	7%
110	6%	8%	9%	9%	10%

DEMOGRAPHIC PROFILE OF THE EMPLOYEE SAMPLE

	%
All Employees	100
Region 1	
East	25
Midwest	27
South	34
West	15
Sex	
Male	66
Female	35
Employer's Business	
Manufacturing	47
Wholesale, retail	11
Financial	11
Service	17
Other	15
Income	
\$15,000 or less	25
\$15,001 to \$25,000	28
\$25,001 to \$35,000	25
\$35,001 or more	19
Age	
18-29 years	31
30-39 years	32
40-49 years	21
50 or over	16
Labor Union	
Self	23
Other in family	5
No one	72
Family Size Covered	
1	29
2	23
3 or more	47

1

Definition of Geographic Regions Used by Louis Harris and Associates:

East: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania, Delaware, Maryland, District of Columbia, and West Virginia.

South: Virginia, North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Texas, and Oklahoma.

Midwest: Ohio, Michigan, Indiana, Illinois, Wisconsin, Minnesota, Iowa, Missouri, Kansas, Nebraska, South Dakota, and North Dakota.

West: Montana, Wyoming, Colorado, New Mexico, Arizona, Nevada, Utah, Idaho, California, Oregon, and Washington.

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